Problem Set #3

1. In June 1995 Clyde Prestowitz (Trading Places) of the Economic Strategy Institute made the following statement to a Senate subcommittee:
“Trade deficits of the size America is presently running with Japan and the rest of the world matter decisively to American prosperity. By limiting the exports of highly competitive American companies, the foreign barriers in large measure responsible for these deficits hold down investment in the export industry.”

Use the long run model of a small open economy. Comment on what you find accurate and inaccurate about this statement.

Do the following Problems and Applications from Mankiw (9th edition).

Ch 6, p170, #1
Ch 6, p170, #3
Ch 6, p182, #1

Ch 7, p209, #1

Ch 8, p239, #1
Ch 8, p240, #5

Due Thursday 22 February